COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3377-01
Bill No.: HB 1346
Subject: Children and Minors; Insurance - Medical; Health Care; Social Services Department
Type: Original
Date: February 28, 2002

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
General	$167,548	$2,758,325	$4,729,904
Total Estimated Net Effect on All State Funds	**$167,548**	**$2,758,325**	**$4,729,904**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Federal*	$0	$0	$0
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

***Revenues and expenditures in FY 03 are less than $100,000 and would net to $0.**

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2003	FY 2004	FY 2005
Local Government	**$0**	**$0**	**$0**

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 6 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Social Service - Division of Family Services (DFS)** state that Federal Medicaid law does not allow a state to have different rules for persons in the same eligibility group. Having different income standards for persons based on when they enroll in a program is generally not permitted. The Division of Medical Services (DMS) would need to seek and be granted modification of the 1115 waiver for the "grandfather" provision before federal funds would be available. If HCFA disallows the "grandfather" provision then all recipients receiving Medicaid benefits over 225% of the federal poverty level would be ineligible and ultimately closed or funded from general revenue.

DFS states all children receiving Medicaid benefits prior to July 1, 2002 would continue to do so based on the rules in place at that time. Any new families seeking Medicaid coverage on July 1, 2002 or after would have their eligibility determined under the "new" rules.

DFS states this grand fathered in population is expected to decline slowly over time as eligibles reach the age limitation for the program.

The DFS estimates continued growth in the 0 - 150% and 151-185% income groups monthly at the rate of 1.21%. The growth rate in the 186-225% income group would decrease marginally by those households who have access to affordable insurance or are unable to pay the co-payments and premiums.

The DFS believes that the passage of this bill would not impact the CHIP caseload and would have a minimal affect on the rate of growth. Therefore, the DFS projects a zero fiscal impact should this proposal be enacted.

Officials from the **Department of Social Services - Division of Medical Services (DMS)** state that the proposed legislation designates a start date of July, 1, 2002.

DMS states in order to receive a federal match, the DMS assumes that a new 1115 waiver will need to be approved by CMS, formerly HCFA. DMS also assumes that a new waiver cannot be approved until January 1, 2003. Until the new waiver is approved DMS would not receive the enhanced federal match. Therefore, the new participants will be funded with General Revenue from July 1, 2002 to January 1, 2003. As of December 2001, the average PMPM (per member, per month) is $115. The estimated number of eligibles is 400 per month. The estimated cost is $702,668.

The current participants that fall under the 226-300% federal poverty level will drop coverage at a slower rate under the proposal than they do under current law since the proposed legislation

ASSUMPTION (continued)

will terminate their benefits once they drop coverage. Therefore, there is a potential cost avoidance. However, due to this being a small group and fewer people coming in since the sliding scale premium effective July 1, 2001, the cost avoidance is not a significant factor and therefore, not calculated.

Per Division of Family Services, 300 eligibles were approved in January 2002 with incomes between 186-225% of the federal poverty level. DFS assumes of a 16.5% reduction of new approvals due to proposed legislation, and per DFS' January 2002 closing report, 51% close rate due to non-payment of premiums; therefore, DMS assumes 177 (300 x 16.54% = 49.62; 300 - 49.62 = 250.38 x 51% = 127.69; 250.38 - 127.69 = 122.69; 300-123), of new eligibles will not actually enroll or continue enrollment. DMS assumes that there will be 123 new eligibles per month with incomes between 186-225% of the federal poverty level (300 new eligibles - 177 eligibles = 123 eligibles). Per DFS, 15% of the 123 (18) are fee-for-service eligibles and 85% (105) are managed care eligibles. The average premium collected from these families is estimated at $79 (Family size of 2 = $1,790 x 5% = $89.50-10 co-pay). The premium is collected per family and the average family has 2 children. Therefore, the annual premium collection is estimated at $757,926.

The eligibles in the 186-225% of federal poverty level are also required to pay co-payments for office visits and prescription drugs. The average person has two co-payments per month. The co-payments will reduce our payments to the providers for the fee-for-services participants by an estimated $14,040 and capitated rates paid to managed care health plans by an estimated $81,900. The estimated cost savings is $95,940.

Per DFS, the estimated eligibles for the 151-185% federal poverty level are 100. Per DFS, 25% of the 100 (25) are fee-for-service eligibles and 75% (75) are managed care eligibles. DMS assumes that the average eligible will have an average of 2 co-payments a month. The co-payments paid by the participants will affect fee-for-service payments by an estimated $19,500 and capitated rates paid to managed care health plans by an estimated $58,500. The estimated cost savings is $78,000.

DMS also assumes the following administrative cost in the first year:

1. System work would need to be completed to distinguish the new populations. The estimated one time cost is $15,200.

2. DMS's actuary would need to develop new capitated rates for the managed care contracts. The estimated increased cost for Mercer is $75,000.

3. A Medicaid bulletin would need to be prepared and distributed to all providers involved. The

DESCRIPTION (continued)

estimated cost is $13,100.

4. At least two mailings would need to be prepared and sent to notify all enrollees affected by the proposed legislation. The estimated cost is $20,000.

5. Fair Share hearings would also increase which could add additional on going costs for administration if the increase in hearings is greater than the current staffing levels could support. DMS assumes the increase would be supportable by the current staff.

Summary of Costs:

Year 1 – FY 03:	
Administrative costs	$(123,300)
Premium collection (annual)	$ 757,926
Co-payments (annual)	$ 173,940
Additional GR before waiver approval	$(702,668)
Total	$ 105,898
Year 2 – FY 04:	
Premium collection (annual)	$ 2,243,462
Co-payments (annual)	$ 514,863
Total	$2,758,325
Year 3 – FY 05:	
Premium collection (annual)	$3,846,789
Co-payments (annual)	$ 883,115
Total	$4,729,904

Finally, DMS assumes the Federal Government will approve this waiver request and not view this as a cutback in coverage, there by lowering our maintenance of effort. Should the Federal Government view this waiver amendment as a cutback, the State's FFP for any group changed by this waiver amendment may be at risk.

FISCAL IMPACT - State Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
GENERAL REVENUE			

CM:LR:OD (12/01)

FISCAL IMPACT - State Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
Income - Department of Social Services - Division of Medical Services			
Net additional CHIPS program income	$167,548	$2,758,325	$4,729,904
ESTIMATED NET EFFECT ON GENERAL REVENUE	**$167,548**	**$2,758,325**	**$4,729,904**
FEDERAL			
Income - Department of Social Services- Division of Medical Services			
Medicaid Reimbursements	$61,650	$0	$0
Costs - Department of Social Services			
Medicaid program costs	($61,650)	$0	$0
ESTIMATED NET EFFECT ON FEDERAL FUNDS	**$0**	**$0**	**$0**

FISCAL IMPACT - Local Government	FY 2003 (10 Mo.)	FY 2004	FY 2005
	$0	**$0**	**$0**

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This proposal applies to individuals who enroll in the program for health care coverage for

uninsured children after July 1, 2002. After that date, uninsured children whose parents or guardians have a household income between 0% and 225% of the federal poverty level are eligible for the program, subject to appropriations. Currently, families with incomes up to 300% of the federal poverty level are eligible for participation. Parents or guardians of uninsured children who have incomes between 151% and 185% of the federal poverty level must pay a $5 co-payment. The current income range for those responsible for the $5 co-payment is between 186% and 225% of the federal poverty level.

Uninsured children whose parents or guardians have incomes between 186% and 225% of the federal poverty level and who cannot obtain affordable health insurance coverage may participate in the program. Currently, families with incomes between 226% and 300% of the federal poverty level who cannot otherwise obtain affordable health insurance coverage are eligible to participate
in the program. The determination of affordable health care is currently calculated based on the monthly average premiums required in the state consolidated health care plan, and the premium amount that the participant is responsible for is based on the average premium required by the consolidated health care plan. The proposal specifies that these calculations be based on monthly average premiums specific to regions of the state.

The bill contains an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Social Services

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Acting Director
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